Internal and external forces impact an organization’s business context, strategy and objectives. As risks in the external environment emerge, the enterprise risk management (ERM) function of a business aims to identify, prioritize and respond to risks. These emerging risks are expanding into the area of sustainability. Over the last decade, environmental and social risks have emerged as global challenges accounting for 70% of top risks in the World Economic Forum’s 2017 Report. However, the ERM function may not fully understand emerging sustainability risks and the impact to their business.

A 2013 EY study found that companies with mature risk management practices had a competitive advantage, earning three times more than companies with less mature risk management practices.

Identifying and responding to emerging sustainability risks are critical to maintaining or achieving a mature ERM practice. Sustainability functions can play a role in ERM leveraging their experience and tools to make more informed responses to sustainability risks. Our cross-functional approach that helps to improve integration of sustainability into ERM can mirror your requirements to improve performance, balance investments and support growth to achieve your company’s overall mission and purpose.

2. Turning risk into results: how leading companies use risk management to fuel better performance, EY, 2013.
Integrating ERM and sustainability

Leading practice indicates that sustainability should be integrated into each phase of ERM to:

- Lay the foundation in governance and planning for successful, long-term integration
- Define and quantify sustainability risks in ERM terms
- Understand and prioritize appropriate risks and responses
- Apply to business activities through monitoring and reporting

According to a 2017 World Business Council for Sustainable Development (WBCSD) report, there is a breakdown in sustainability and ERM due to limited knowledge, difficulty in quantification and lack of cross-functional collaboration. EY can help address gaps when a company wishes to:

- Better identify emerging sustainability risks and opportunities throughout the value chain
- Improve collaboration between sustainability and ERM
- Incorporate or improve processes for measuring sustainability risk into ERM
- Align ERM with sustainability risks based on differing time horizons
- Consider reporting on sustainability risks and ERM externally

How EY can help

Our approach

EY’s approach draws from its own leading practices in its ERM governance framework and cross-functional collaboration between ERM and sustainability professionals within the organization. We focus on the key activities in ERM:

- **ERM governance and planning**
  Collaborate with ERM and sustainability functions to:
  - Conduct maturity diagnostics and identify the desired level of maturity
  - Develop a road map for a risk governance model, including understanding risk appetite and risk identification, assessment, response and communication

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**Identify sustainability risks**
Work with stakeholders from cross-functional teams to:
- Develop the risk universe and select relevant sustainability risks based on stakeholder interviews, sustainability materiality assessment and comparison against the risk register
- Define sustainability risks and map value chain impacts with support of stakeholders from cross-functional teams
- Conduct analysis, such as scenario modeling, decision trees, sensitivity analysis, etc., through cross-functional collaboration

**Assess and respond to risks**
Combine results from collaboration to:
- Prioritize risks using agreed-upon rating criteria
- Determine an appropriate risk response given the risk profile (in context of the risk appetite)
- Co-develop with management any risk response action plans

**Monitor and report risks**
Assist in deploying tools to:
- Track and monitor the progress of sustainability risk action plans from risk owners, including data collection and use
- Report on the progress of sustainability risk action plans
- Prepare a portfolio view of status reports for management and consider using scenario analysis

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### Governance and oversight
- Board and executive committees and communication
- Organizational structure and roles and responsibilities

### Planning and decision-making alignment
- Stress testing
- Capital planning
- Inclusion of risk in management decision-making

### Risk identification and assessment
- Risk appetite
- Strategic planning
- Risk taxonomy
- Inherent and residual risk
- Emerging risks

### Risk measurement
- Risk quantification
- Capital modeling
- Stress testing
- Internal and external loss data

### Risk monitoring
- Ongoing monitoring
- Risk responses
- Issue tracking and resolution

### Risk reporting
- Accurate and broad
- Clarity and usefulness
- Standard and ad-hoc
- Normal and stressed conditions
- Appropriate distribution
- Automation

### Data, technology and infrastructure
- Timely data availability
- Integrated architecture
- Reporting engines and analytics

### Policies, training and culture
- Point in time and ongoing risk management training
- Policies and procedures

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Certain services and tools may be restricted for EY audit clients and their affiliates to comply with applicable independence standards. Please ask your EY contact for further information.
Potential benefits of integration

Integrating sustainability into your ERM can support growth and alignment to your overall mission and purpose.

- **Performance: improve predictability of results**
  - Enhanced capabilities to identify, evaluate, manage and monitor trends and risks related to sustainability
  - Improved management of the risk drivers creating volatility in the performance and business outcomes
  - Use of key indicators and risk monitoring dashboards to enhance real-time decision-making capabilities

- **Investment: balance the allocation of resources**
  - Enhanced ability to evaluate sustainability risk exposures against risk appetite to balance investments
  - Outlined opportunities for capital redistribution based on an evaluation of strategic ambitions aligned to risk appetite
  - Enhanced ability to assess compliance and controls in acquisition targets to evaluate sustainability exposures

- **Growth: protect brand and enable growth**
  - Enhanced focus on protecting critical, sustainability assets and competitive position while likely improving margin
  - Enhanced planning processes and ongoing monitoring to enable proactive management of sustainability risk to help grow revenue and market share
  - Enhanced capabilities to help determine when to accept a risk in a managed approach that allows greater market penetration and overall growth

Why EY?

EY supports you with cross-functional teams, bringing you extensive experience in both sustainability and ERM. Our services are rooted in our sustainability and ERM integration methodology that can be flexible. You will be able to select the service components relevant to your ERM and sustainability needs. We can also provide in tandem ERM transformation support along with sustainability integration as part of a wider ERM improvement effort.

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